NATIONAL BISCUIT COMPANY/ANNUAL REPORT 1967



# National Biscuit Company

425 Park Avenue, New York, N. Y. 10022

## ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1967

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**Transfer Agents**

Morgan Guaranty Trust Company
30 West Broadway
New York, N.Y. 10015

Continental Illinois National
Bank & Trust Company
231 South La Salle Street
Chicago, Illinois 60690

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, Calif. 94120

**Registrars**

First National City Bank
55 Wall Street
New York, N.Y. 10005

The First National Bank of Chicago
38 South Dearborn Street
Chicago, Illinois 60690

Bank of America
1 South Van Ness Avenue
San Francisco, Calif. 94120

**Debenture Trustees**

Bankers Trust Company
16 Wall Street
New York, N.Y. 10015

Morgan Guaranty Trust Company
23 Wall Street
New York, N.Y. 10015

### ANNUAL MEETING

The annual meeting of shareholders will be held at 2:00 P.M. on Monday, April 29, 1968, at the Commodore Hotel in New York City. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders at least 30 days in advance of the meeting.

Delicious treats with Nabisco snacks make entertaining a gala occasion.

## FINANCIAL HIGHLIGHTS

| | 1967 | 1966 |
|---|---|---|
| **Net sales** | **$763,600,000** | $719,600,000 |
| **Income from operations** | **81,800,000** | 78,200,000 |
| **Net income** | **42,300,000** | 40,800,000 |
| **Net income per dollar of sales** | **5.5 cents** | 5.7 cents |
| **Net income per common share** | **3.11** | 2.99 |
| **Dividends declared per common share** | **2.00** | 1.90 |
| **Common dividends declared** | **27,200,000** | 25,900,000 |
| **Earnings retained** | **15,100,000** | 14,900,000 |
| **Plant and equipment additions** | **31,600,000** | 25,600,000 |
| **Working capital** | **99,200,000** | 98,100,000 |

**QUALITY** The word "quality" is difficult to define. It is not an absolute term and no dictionary definition seems to fit precisely. It is, however, a human concept and most of us can supply an accurate description of what the term means to us as individuals.

What contributes to the quality of a food product? There are, of course, obvious factors such as the choice of ingredients used, the processing and manufacturing methods employed, and the efficiency and protective features of the package. But we believe there are a number of intangible factors that also have a great deal to do with product quality.

The intent of the manufacturer is the primary ingredient in the production of a quality product. This intent is evidenced by his choice of ingredients and processing methods, by the training and instruction of his employees, by the quality-control measures he adopts, and by the care exercised in packaging and distributing his product.

NABISCO has a 70-year history of dedication to quality. We want consumers to expect and look for top quality in Nabisco products. It is for this reason the Company has adopted the slogan, "You'll Find Quality in Our Corner," and we will seek to make consumers increasingly aware of this Nabisco pledge.

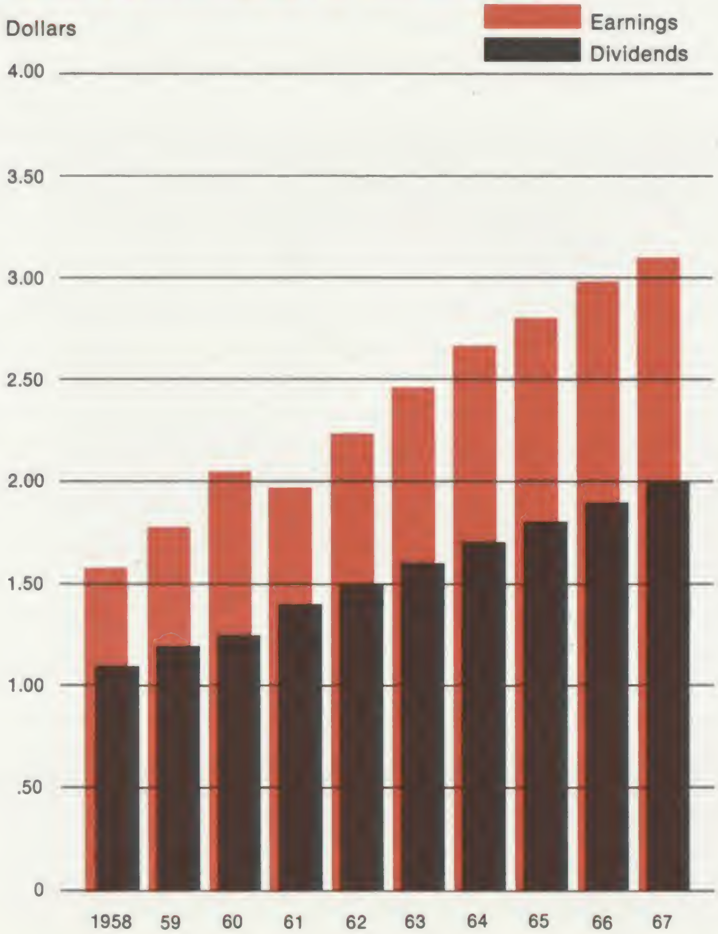
## THE PRESIDENT'S LETTER

**To Nabisco Shareholders:** The year 1967 was our 70th year of operations. It saw your Company achieve the highest sales and earnings in its history. Net sales for the year totaled $763.6 million, up six per cent over 1966. Earnings reached $42.3 million, a gain of four per cent over last year. This figure is equal to $3.11 per share of common stock, compared with $2.99 per share which we earned a year ago. In January of 1967, the dividend rate was raised from $1.90 per share to $2.00 per share. This marked the ninth consecutive year in which the dividend has been increased and the 69th year of uninterrupted quarterly dividend payments to you.

In operating a large world-wide enterprise today, the professional manager can no longer be guided by the laws of pure and relatively simple economics. He must work in a climate which is an uncertain admixture of innumerable social and economic forces. Persistent inflationary pressures on costs and increasingly intense competition continue to make yearly improvements in profits more difficult to achieve. Nevertheless, in spite of these conditions, for the sixth consecutive year we have been able to improve our performance.

I believe that if business is to meet successfully the challenges which it now faces, its leaders must make a firm and sincere commitment to the concept of value. Delivering value to the consumer is the only sound foundation of good business in a free-enterprise system. One of the principal ingredients of value is the quality which the producer infuses into his products at every step along the way. This attitude, the commitment to value and quality, you see reflected in our recently developed Company slogan: "You Will Find Quality in Our Corner." We have highlighted it on the cover of this report, and we are using it to an ever-increasing degree in our advertising.

**Earnings and Dividends Per Common Share**



Working within the climate and according to the business philosophy which I have just described, the year 1967 was characterized by progress and accomplishment. There were a number of significant developments, which I will merely highlight for you here, and which are commented upon more fully in the body of this report.

For example, we are continuing our efforts to add to our production facilities to meet the present and future potential demand. Work is progressing simultaneously on three new major plants around the world—for cereals and biscuits in Melbourne, Australia; for cookies and crackers in Milan, Italy, and for cereals in Naperville, Illinois. During the year, we formed an association with two additional European enterprises—the West German chocolate firm of B. Sprengel and Company and the Oxford Biscuit Company in Denmark. In order to finance our expanding activities abroad, and to cooperate with the United States Government in its balance of payments program, for the first time in our history we sold in Europe 20 million dollars of 15-year debentures. Additional international financing may be necessary or desirable from time to time.

Finally, we believe that there has been a marked improvement in the capabilities of the entire management team of global NABISCO. This has been brought about by the development of better management techniques and practices through meetings attended by key management personnel from the 14 countries in which we operate. Specific examples are the global management conference, held in the United States last spring and the European council meeting held in Paris late last fall and an intensive Long-Range Planning seminar attended by the members of the Executive Department.

It is also important to note that in early September we reached a satisfactory agreement with our United States production workers for a two-year contract.

In summary, we view 1967 as a year of fundamental improvement and steady accomplishment. It places us in an even stronger position for greater achievements in the years ahead. Furthermore, we are pleased to have this opportunity to acknowledge to all that our accomplishments have been due in no small part to the support of our shareholders, customers, employees and suppliers. To each, we express our gratitude. With their continued support, and with the dedication of your management, we anticipate another good year in 1968.

Lee S. Bickmore

President

February 1, 1968

President Lee S. Bickmore. In 1967 Mr. Bickmore was honored as 'Marketing Statesman of the Year' by the Sales Executives Club of New York.

## 1967 in Review

As indicated in the President's Letter, the Company enjoyed a record year in 1967. Following is a more detailed report of the major areas of activity and accomplishments.

NABISCO's total net sales and earnings reached record levels during the year. Sales totaled $763.6 million, a gain of six per cent from the previous year. Net earnings amounted to $42.3 million, equal to $3.11 per share, up from $2.99 per share in 1966, based on the average number of shares outstanding in each period. The somewhat smaller rate of increase in earnings was due to the cost-price squeeze during the first nine months of the year, plus NABISCO's new-product introduction expenses in the United States and abroad.

The Company's financial health continues to be strong. Total net assets at the close of the year totaled $256.2 million, up $14.7 million from the previous year. Net working capital amounted to $99.2 million at year's end.

One of the financial highlights of the year was the sale in Europe of $20 million in 15-year debentures. The debentures were issued by Nabisco International Finance Company, a wholly owned subsidiary of National Biscuit Company, and are fully guaranteed by the parent company.

In November, four countries in which we have operations acted to devalue their currencies. Great Britain, which devalued the British pound by approximately 14 per cent, was joined by New Zealand, Spain and Denmark in subsequent devaluations of their own currencies. These devaluations did not have a material effect on our earnings.

As a convenience to shareholders who reside in the Midwest and on the West Coast, the Company has listed its common stock on the Midwest and Pacific Coast Stock Exchanges.

### Net Sales By Quarters

(Millions of Dollars)

| Quarter Ended | | 1967 | 1966 |
|---|---|---|---|
| March | 31 | **$187.0** | $175.9 |
| June | 30 | **188.1** | 176.3 |
| September | 30 | **189.1** | 177.9 |
| December | 31 | **199.4** | 189.5 |
| | | **$763.6** | $719.6 |

### Capital Expenditures

Total capital expenditures during 1967, both in the U.S. and abroad, amounted to $31.6 million, compared with $25.6 million in 1966. This heavy investment spending supports our continuing need to expand production

capacity, to keep abreast of new advances in technology, and to improve operating efficiency. NABISCO's capital expenditures have totaled more than $100 million in the past five years. They are expected to go well over this figure in the next five.

The bulk of the 1967 spending has been concentrated on the construction of three new plants, one in the United States and two for Nabisco subsidiaries abroad.

The new food plant at Melbourne, Australia provides Nabisco Pty. Limited with the production facilities necessary to make our entry into the cracker and cookie market in that country, and modernizes our cereal production. Our operations in Australia, dating back to 1960, have been confined to a line of cereal products and sundry items. In 1968, we will introduce a full line of cookies and crackers which we believe will gain the enthusiastic acceptance of Australian consumers.

In Italy, a critical need for increased capacity at Saiwa, S.p.A., will be met with the completion of a new cracker and cookie bakery at Milan. When it is completed and in full production, the new bakery will be one of the finest plants of its kind in the world.

The third new Nabisco plant is a cereal and food processing facility located west of Chicago at Naperville, Illinois. This plant will begin production by the end of 1968 and be in full operation during 1969. It will rank among the most modern cereal-producing facilities in the industry.

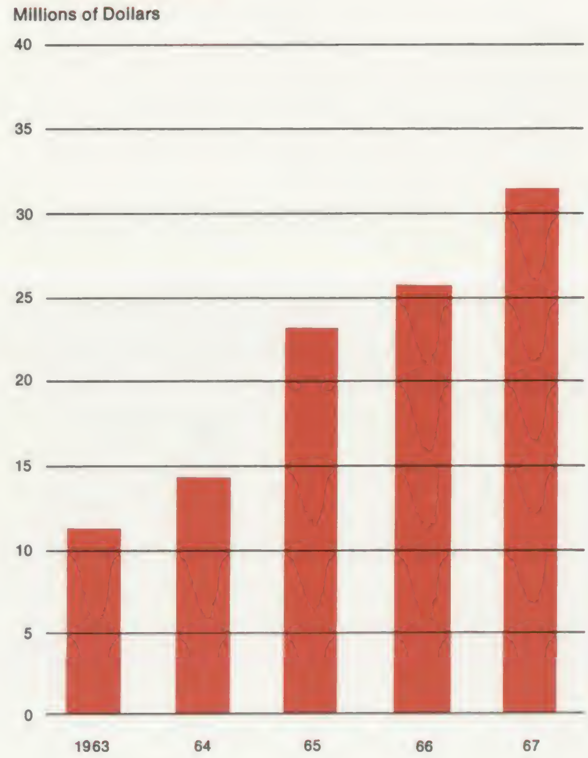
In addition to these major construction programs, a great many new equipment installations have been completed for the production of an ever-growing number of new products and for more efficient materials-handling facilities at existing plants and warehouses. As new products and packaging improvements are developed in our research programs, equipment and production lines must be provided to make them productive.

## Research

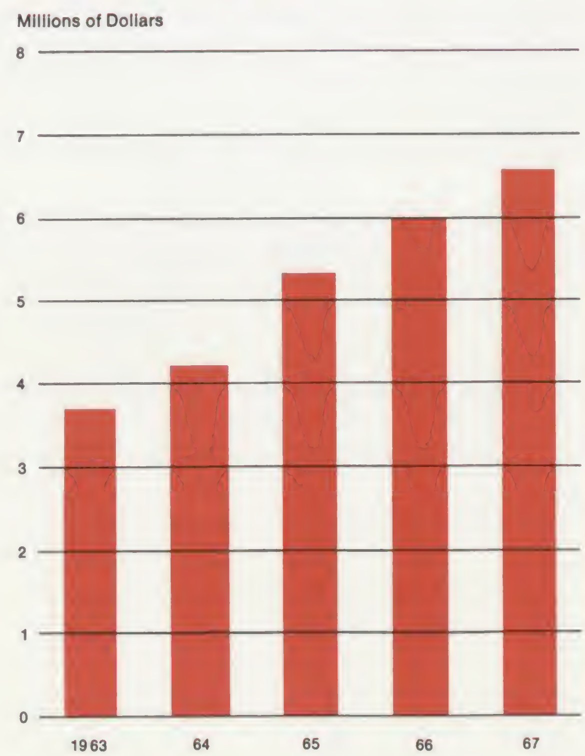
Increased interest in an expanding number of research activities continued in 1967. NABISCO's total research expenditures amounted to approximately $6.5 million, almost double our expenditures in this area only five years ago. The expansion of facilities at the Company's research center in Fair Lawn, New Jersey, and the accompanying increase in the technical staff has enabled us to pursue inquiry into a number of areas at a much faster pace than was previously possible.

The Fair Lawn Research Center program serves Nabisco units in fourteen countries. New-product development work for our international affiliates has stepped up considerably as the product lines of these companies

**Capital Expenditures**




**Research and Development**




Pictured here are some of the leading new Nabisco products introduced in the United States in 1967.


Rice Cream Flakes
a new cereal crunchy as a cone!
mister salty
NABISCO
mister salty
FRESH! CRISP!
Veri-Thin PRETZEL STICKS
Welch's PEANUT BUTTER Crunches
Welch's FRUIT CORDIALS GRAPE
Luscious!
APPLE Toastettes.
ONION appeteasers TINY CRACKERS
NEW! Easy Bake fudge nut COOKIES
36 FROZEN · PRE-FORMED
ROCKETS
Chocolate Bars from NABISCO
NABISCO MILK CHOCOLATE
MILK CHOCOLATE
Danish Swirls cookies
NEW! Mix'n Eat CREAM OF WHEAT.
10 single serving packets

are being extended. Every effort is made to insure that the quality and value which consumers associate with the Nabisco trademark is built into products that bear this name the world over.

In NABISCO's total research program, the development of our SNACK MATE cheese spreads in pressurized cans, the new instant MIX 'N EAT Cream of Wheat, EASY BAKE frozen cookie line, and the numerous new snack products are the result of this emphasis. But new products are only part of the program. Of equal importance are the innovations in production equipment and packaging features that have enabled our plants to effect continual improvement in operating efficiency. A substantial portion of the equipment installed in a new Nabisco plant or bakery is designed and proven at the Fair Lawn Research Center. After a prototype is built at Fair Lawn, actual production machines, in the required number, are constructed in our own equipment manufacturing facility at Evanston, Illinois.

Research projects in 1967 took other significant directions. While much of the work concerns the commercial application of known facts, materials and techniques, many newer areas are under intensive study. In addition, the Company is engaged in several nutrition-research projects on a cooperative basis with educational institutions and government agencies. Among these is a program to develop and test a supplemental high-protein food for teen-age students to determine its effect on classroom performance.

## New Products

During the past year, the Company carried out the successful introduction of a number of new products. In some instances, these new items served to expand and augment product lines already in existence within our several operating divisions. But, in addition to this, NABISCO began the marketing of several products aimed specifically at markets where we had no prior entry.

Throughout the food industry, in new-product development the present emphasis is on convenience foods. U.S. consumers are strongly attracted to foods that are easy to prepare and serve. Convenience and swift preparation are the major product features. New food items which fall into this category—and which demonstrate genuine service advantages—can quickly win enthusiastic consumer response.

TOASTETTES, baked fruit pastries, made their debut in the fall and have been well received. Developed to meet consumer demand for a quickly prepared breakfast item, TOASTETTES come ready to heat in a toaster. They are available in four popular fruit flavors.

APPETEASERS tiny crackers are another new snack

item with excellent appeal and potential. Marketed in three distinctive shapes and flavors — onion, cheese, and crescent rolls — these mini-snacks have an appetizing taste and appearance which enhance their popularity.

In total, NABISCO's United States divisions marketed more than 20 new products in 1967. A number of others are undergoing market and consumer tests on a restricted basis, an essential phase of any new product-development program. One of these items currently being tested is a new cereal, RICE CREAM FLAKES, made by toasting flakes of rice and dipping them in freeze-dried vanilla ice cream. Our affiliated and subsidiary companies overseas have also launched new items, appealing to local tastes and preferences, during the past year.

Here are some of the leading Nabisco new-product introductions in 1967:

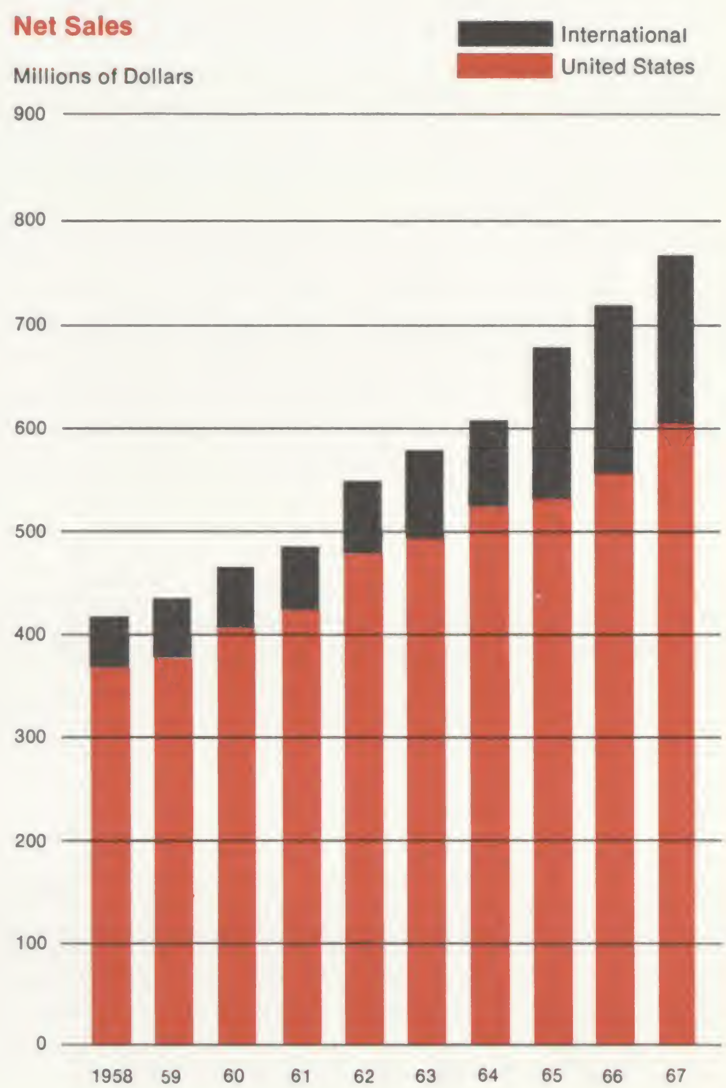
TOASTETTES toaster pastries (in four fruit flavors)
MIX 'N EAT Cream of Wheat cereal
GRAPE FLAVORED FRUIT CORDIALS candy
APPETEASERS crackers (in three flavors)
MISTER SALTY pretzels (in four varieties)
ROCKETS PEANUT CREME sandwich
DANISH SWIRL cookies
NABISCO Milk Chocolate bars
RICE CREAM FLAKES cereal

## International

There were a number of significant developments on NABISCO's international scene during the past year. Operations abroad were extended through affiliation with companies in West Germany and Denmark. The product lines of our overseas affiliates were extended by the introduction of new items, and capital programs continued to expand and improve production and distribution facilities. Our total volume of consolidated net sales outside the United States increased to $161.7 million or 21 per cent of the Company total.

A noticeably lower level of general economic activity abroad, and heavy capital spending and product-introduction programs overseas affected international earnings for the short term. NABISCO's operating position overseas was, however, considerably strengthened in 1967. The Company is continuing to do everything possible to further our international interests wherever attractive long-term potential appears to exist. We are realizing our international growth objectives and are operating within the balance of payments restrictions.

NABISCO began a program of rapid expansion overseas in 1960, and since that time we have steadily in-



creased our international interests. In 1967, we became associated with the West German firm of B. Sprengel and Co., one of Europe's finest candy and chocolate manufacturers. The company is located at Hannover and its products are widely distributed throughout the country.

Also in 1967, an association was formed with the Oxford Biscuit Factory, Ltd., of Hjoerring, Denmark. Oxford is the largest biscuit firm in Denmark and its extensive line is distributed throughout the Scandinavian countries. Nabisco affiliates and subsidiary companies now operate in 14 countries around the world. It is interesting to note that Sprengel and Oxford are the ninth and tenth companies abroad to join the Nabisco family since 1960. During this period, our consolidated international sales volume has more than doubled.

Traditionally accepted types of local products of our affiliated companies abroad have considerable strength in their particular markets. New varieties of a similar nature are added regularly. We are now expanding these product lines with the addition of familiar Nabisco products from the United States. RITZ Crackers have recently been introduced in Italy and Spain; indeed, RITZ has become truly an international cracker and is now produced in nine countries. OREO Creme Sandwich made its debut in Mexico. A U.S.-style pound cake product is marketed in Venezuela and three popular home-style cookies are being made in Germany.

We have previously indicated a growing demand for additional production capacity overseas and the new plants in Australia and Italy will help to meet this need. The new ultra-modern bakery at Melbourne has already begun limited production of several cereal products and in 1968 will mark NABISCO's entry into Australia's cracker and cookie market. At Milan, Italy, one of our finest bakeries is under construction and will be completed in 1969.

In addition, new facilities were installed in Mexico, New Zealand, France and Spain during the year. Additional modernization programs will be undertaken in several other countries in 1968. Distribution facilities have been expanded in several areas, with a new distribution center near San Juan, Puerto Rico.

In the late spring, the Company held its second global conference here in the United States. Some 75 men, comprising the top management team of Nabisco units here and abroad, attended the four-day meeting. Simultaneous translations in four languages were provided to insure clarity of communications. The objective of the meeting was to exchange world-wide plans and ideas in order to develop further the proficiency of our professional managers. Expertise in both the technical and


Cookies from the Oxford Biscuit Company of Denmark, left, and chocolate candy from B. Sprengel & Co. of West Germany, below, enhance the Nabisco image of quality abroad.

commercial end of the business was brought to bear on each presentation and discussion to the mutual benefit of all. It is planned to hold similar meetings at regular intervals to continue this interchange of ideas.

In the fall of this year, a three-day meeting of the European council was held in Paris. This council is comprised of the heads of our European companies and selected management personnel from the United States. The principal objective of this group is to coordinate our activities throughout the European Common Market. By so doing, we will place ourselves in a better position to take advantage of the inherent potential of the Common Market as trade barriers are removed.

These meetings are but one part of a Company-wide training program to assure the development of Nabisco personnel to the fullest.

## Executive Changes

A number of steps were taken in 1967 to realign areas of executive responsibility and to further strengthen the management organization.

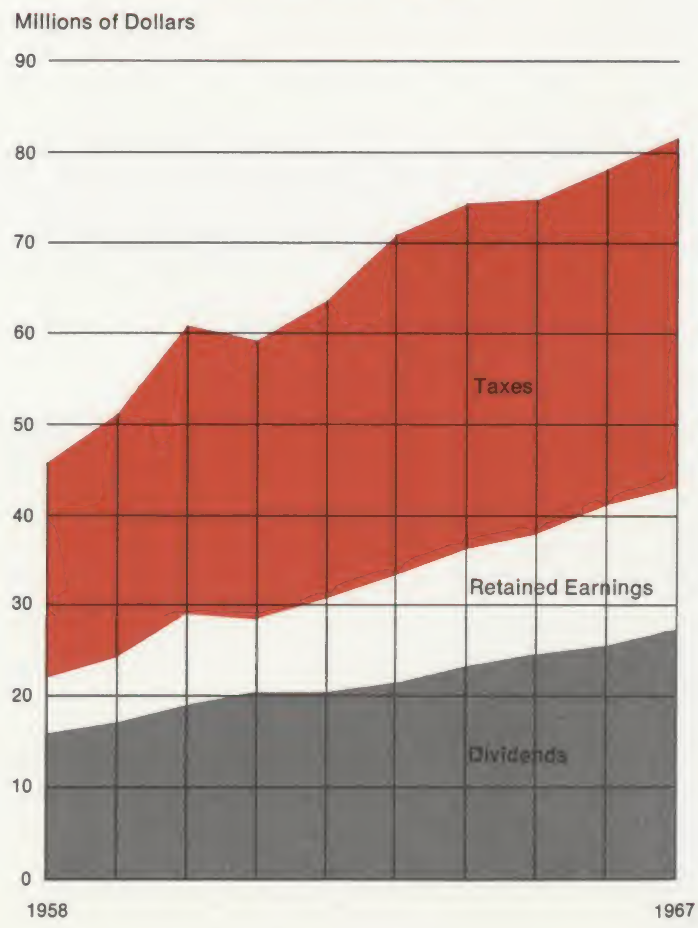
Although we have had an effective long-range financial-planning system for many years, we have felt the need to broaden the scope of this kind of activity as it applies to all of the other segments of our business. To this end on April 1, 1967, we formed a new staff position entitled Corporate Planning. We then appointed one of our experienced executives, Frank K. Montgomery, Jr., formerly Vice President of the Special Products Division, to Vice President — Corporate Planning. The potential benefits of this work should contribute greatly to the future growth of the Company.

Also on April 1st, David F. Bull was elected Vice President—Special Products Division to succeed Mr. Montgomery. Mr. Bull was President of the Cream of Wheat Company when it became a part of NABISCO in 1961 and has held a number of executive positions with the Company since that date.

In December, Mr. Raymond Dallemagne, Vice President—Director General of Biscuits Belin, our affiliate in France, was appointed Technical Advisor—World Wide —to the parent corporation. Mr. Dallemagne counsels all Nabisco units on technical production matters, a key assignment at a time when our operations around the world are developing new products and expanding their product lines.

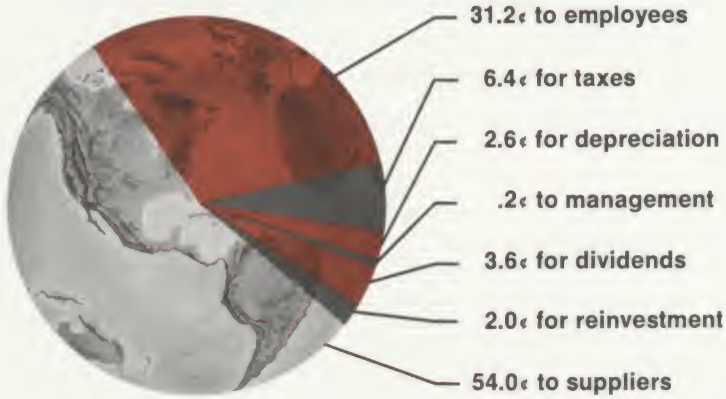
On April 12, 1967, James O. Welch was elected to the Board of Directors. Mr. Welch, a former Nabisco Vice President, was the founder and first President of the James O. Welch Candy Company, a firm which was merged with NABISCO in 1963.

## Distribution of Income Before Taxes



NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

## HOW EACH WORLDWIDE NABISCO SALES DOLLAR WAS USED




## SUMMARY OF OPERATIONS—1967

(Thousands of Dollars)

| | | |
|---|---|---|
| We received from sale of our products | **$763,634** | 100% |
| We expended for | | |
| Raw materials, supplies and services | **412,614** | 54.0 |
| Employees' wages and benefits | **237,996** | 31.2 |
| Direct taxes, except social security taxes | **48,870** | 6.4 |
| Depreciation | **19,980** | 2.6 |
| Officers' salaries | **1,825** | .2 |
| Leaving profits* which were | | |
| Distributed as dividends | **$ 27,171** | 3.6 |
| Retained in the business | **15,178** | 2.0 |

*National Biscuit Company also received interest and miscellaneous income of $1,661,000 and incurred interest expense on long-term debentures of $1,956,000. These items, after taxes, reduced net income by $72,000.

## SOURCE AND APPLICATION OF FUNDS

(Thousands of Dollars)

| | 1967 | 1966 |
|---|---|---|
| **SOURCE:** | | |
| Net income | **$42,277** | $40,820 |
| Depreciation | **19,980** | 18,023 |
| Deferred income taxes and investment credit | **1,921** | 2,366 |
| Proceeds from sale of 6½% debentures | **19,200** | — |
| | **83,378** | 61,209 |
| **APPLICATION:** | | |
| Plant and equipment additions | **31,637** | 25,554 |
| Leased automobiles acquired (excludes capitalization, January 1, 1967) | **5,908** | — |
| Dividends declared | **27,171** | 25,915 |
| Increase in "other assets" | **12,321** | 6,105 |
| Miscellaneous (net) | **5,271** | 3,616 |
| | **82,308** | 61,190 |
| **INCREASE IN WORKING CAPITAL** | **$ 1,070** | $ 19 |
| Working capital: | | |
| Beginning of year | **$98,082** | $98,063 |
| End of year | **99,152** | 98,082 |
| Increase in working capital | **$ 1,070** | $ 19 |

(Financial statements should be read in conjunction with notes appearing on pages 16 and 17.)

**NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES**

## FINANCIAL POSITION

| | December 31, 1967 | December 31, 1966 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 22,625,000 | $ 19,033,000 |
| Short-term investments, at cost (approximately market) | 36,295,000 | 33,281,000 |
| Accounts receivable | 43,320,000 | 38,961,000 |
| Inventories | 86,726,000 | 88,613,000 |
| **TOTAL CURRENT ASSETS** | 188,966,000 | 179,888,000 |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | 67,393,000 | 54,373,000 |
| Common dividend payable | 6,793,000 | 6,462,000 |
| Federal and foreign taxes on income | 15,628,000 | 20,971,000 |
| **TOTAL CURRENT LIABILITIES** | 89,814,000 | 81,806,000 |
| **WORKING CAPITAL** | 99,152,000 | 98,082,000 |
| Plants, real estate, machinery and equipment | 180,481,000 | 159,324,000 |
| Other assets | 21,043,000 | 8,722,000 |
| Excess of investment in consolidated subsidiaries over net assets | 27,279,000 | 26,506,000 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 327,955,000 | 292,634,000 |
| **DEDUCT** | | |
| Long-term debentures | 54,119,000 | 35,706,000 |
| Deferred income taxes and investment credit | 15,014,000 | 13,093,000 |
| Minority interest in consolidated subsidiaries | 2,598,000 | 2,348,000 |
| **EXCESS OF ASSETS OVER LIABILITIES** | $256,224,000 | $241,487,000 |
| **REPRESENTED BY** | | |
| Capital stock, common—Par value $5 | $ 68,460,000 | $ 68,460,000 |
| Shares authorized 24,000,000, issued 13,691,922 | | |
| Additional paid-in capital | 923,000 | 923,000 |
| Retained earnings | 191,288,000 | 176,182,000 |
| Less: Treasury stock, at cost—92,106 shares in 1967 and 84,300 shares in 1966 | (4,447,000) | (4,078,000) |
| | $256,224,000 | $241,487,000 |

(Financial statements should be read in conjunction with notes appearing on pages 16 and 17.)

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

## INCOME AND RETAINED EARNINGS

| | 1967 | 1966 |
|---|---|---|
| **NET SALES** | **$763,634,000** | $719,557,000 |
| Cost of sales | **475,501,000** | 447,657,000 |
| Selling, general and administrative expenses | **166,949,000** | 158,834,000 |
| Depreciation | **19,980,000** | 18,023,000 |
| Taxes (other than federal and foreign taxes on income) | **19,373,000** | 16,838,000 |
| Interest and miscellaneous income, net | **(1,661,000)** | (1,553,000) |
| Interest on long-term debentures | **1,956,000** | 1,708,000 |
| | **682,098,000** | 641,507,000 |
| **INCOME BEFORE INCOME TAXES** | **81,536,000** | 78,050,000 |
| Federal and foreign taxes on income | **39,259,000** | 37,230,000 |
| **NET INCOME** | **42,277,000** | 40,820,000 |
| Retained earnings January 1 | **176,182,000** | 161,277,000 |
| | **218,459,000** | 202,097,000 |
| Common dividends declared, $2.00 per share in 1967, $1.90 per share in 1966 | **27,171,000** | 25,915,000 |
| Retained earnings December 31 | **$191,288,000** | $176,182,000 |
| **NET INCOME** per share of common stock, based on average number of shares outstanding during the period | **$3.11** | $2.99 |

(Financial statements should be read in conjunction with notes appearing on pages 16 and 17.)

**NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES**

## NOTES TO FINANCIAL STATEMENTS

**CONSOLIDATION** The Company consolidates all its subsidiaries except for its interests in Galletas Artiach, S.A., Spain and B. Sprengel & Co., Germany.

**INVENTORIES** generally are stated at average cost or market, whichever is lower, and represent

| | 1967 | 1966 |
|---|---|---|
| Raw materials and supplies | $ 49,518,000 | $ 51,753,000 |
| Finished product | 37,208,000 | 36,860,000 |
| | $ 86,726,000 | $ 88,613,000 |

**PLANTS, REAL ESTATE, MACHINERY and EQUIPMENT** are stated at cost and comprise

| | 1967 | 1966 |
|---|---|---|
| Buildings | $113,074,000 | $106,340,000 |
| Machinery and equipment | 259,635,000 | 230,605,000 |
| | 372,709,000 | 336,945,000 |
| Less allowances for depreciation | 200,708,000 | 185,582,000 |
| | 172,001,000 | 151,363,000 |
| Land | 8,480,000 | 7,961,000 |
| | $180,481,000 | $159,324,000 |

The Company rents certain automotive equipment under relatively short-term leases. In accordance with a recommendation of the American Institute of Certified Public Accountants, the Company, as of January 1, 1967, elected to capitalize the cost of this equipment, less accumulated depreciation. At December 31, 1967, this equipment, approximately $8,000,000 net of accumulated depreciation, is included with machinery and equipment, and the lease obligation, in a similar amount, is reflected in accounts payable and accrued expenses. As a result of this revised presentation, which had no effect on net income, depreciation for 1967 increased $2,180,000 with a corresponding decrease in selling, general, and administrative expenses.

**OTHER ASSETS** at December 31, 1967 include approximately $16,400,000 of investments in unconsolidated companies. These investments are carried at cost plus equity in undistributed net earnings since acquisition. The Company's equity in the underlying tangible net assets is approximately $8,000,000. The balance in other assets, $4,600,000, consists principally of prepaid expenses and deferred charges.

**LONG-TERM DEBENTURES** comprise

| | 1967 | 1966 |
|---|---|---|
| 4¾% Subordinated Debentures, due April 1, 1987 | $ 34,119,000 | $ 35,706,000 |
| 6½% Guaranteed Debentures, due October 1, 1982 | 20,000,000 | — |
| | $ 54,119,000 | $ 35,706,000 |

The 4¾% Subordinated Debentures were issued in connection with the retirement of National Biscuit Company's 7% cumulative preferred stock in April 1962. National Biscuit Company at its option may, at any time after April 1, 1972, redeem all or any part of these debentures at prices decreasing gradually from 104% of the principal amount in April 1972 to 100% of the principal amount in April 1985 and thereafter. The 6½% Guaranteed Debentures, issued October 1967 by Nabisco International Finance Company, will be subject to redemption through a sinking fund beginning in 1970. All or any part of these debentures may be redeemed at that company's option beginning in 1972 at prices decreasing gradually from 103% of the principal amount to 100% in 1979 and thereafter.

**INVESTMENT CREDIT** The Company's policy is to amortize the investment credit over the lives of the qualifying assets.

## NOTES TO FINANCIAL STATEMENTS (continued)

**PENSION EXPENSE** The Company has voluntary non-contributory pension plans, which have been approved by the shareholders, for employees not covered by union-industry pension plans. Certain subsidiaries have similar plans. Such pension expense, which is funded currently, is substantially equivalent to the provision for current service costs and interest on unfunded past service liability. In addition, the union-industry pension plans require contributions defined in the union agreements. Total pension costs amounted to $8,824,000 in 1967.

**STOCK OPTION PLAN** In April 1964, the shareholders of the Company approved a Stock Option Plan authorizing the granting of options to officers and other key employees of the Company and its subsidiaries to purchase 250,000 shares of the Company's common stock at not less than 100% of the fair market value of the stock on the date the options are granted. All options must be exercised within a period of five years from the date granted and are not exercisable until after the second anniversary date. On January 1, 1967, there were options outstanding to purchase 142,550 shares at prices ranging from $44.31 to $68.00. Options for the purchase of 29,300 shares at $47.44 were granted during 1967. No options were exercised during 1967 although options covering 58,715 shares were exercisable. Options for 3,700 shares were cancelled during 1967 with the result that at December 31, 1967 there were options outstanding to purchase 168,150 shares.

**COMMITMENTS,** principally in regard to plant and equipment, approximated $25 million at the end of 1967. In addition, annual rentals on properties operated by the Company under leases expiring from 1971 to 1982 aggregate approximately $3.9 million.

**CONSOLIDATED FOREIGN SUBSIDIARIES** are included in the financial statements for 1967 at the following U.S. dollar amounts (translated at appropriate rates of exchange): working capital, $17,740,000; net plant assets, $60,493,000; net sales, $161,677,000; and net income of $4,281,000 after minority interests.

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## REPORT OF AUDITORS

**To the Shareholders of National Biscuit Company:**

We have examined the statement of financial position of National Biscuit Company and consolidated subsidiaries as of December 31, 1967, the related statement of income and retained earnings for the year then ended and the statement of source and application of funds for the years ended December 31, 1967 and 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished reports of other public accountants upon their examinations of the financial statements of certain foreign subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based upon such reports. We made a similar examination of the financial statements for the year 1966 and have previously reported thereon.

In our opinion, the aforementioned financial statements present fairly the financial position of National Biscuit Company and consolidated subsidiaries at December 31, 1967 and 1966, and the results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

February 1, 1968
2 Broadway
New York, N.Y. 10004

## DIRECTORS AND OFFICERS

### Board of Directors

LAWRENCE A. APPLEY
LEE S. BICKMORE
BERFORD BRITTAIN, JR.
NILE E. CAVE
WILLIAM H. COLVIN
JESS H. DAVIS
HARRISON F. DUNNING
CHARLES W. LUBIN
DON G. MITCHELL
WILLIAM H. MOORE
ROBERT M. SCHAEBERLE
CARROL M. SHANKS
PERRY M. SHOEMAKER
JAMES O. WELCH

**Director Emeritus**
ROY E. TOMLINSON

### Executive Committee

LAWRENCE A. APPLEY
LEE S. BICKMORE
NILE E. CAVE
JESS H. DAVIS
DON G. MITCHELL
ROBERT M. SCHAEBERLE

### Officers

#### Executive Department

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ROBERT M. SCHAEBERLE ......... Executive Vice President
NILE E. CAVE ....................... Senior Vice President
C. EUGENE LAIR .................... Senior Vice President
EDWARD A. OTOCKA ................ Senior Vice President
CHARLES S. WEBSTER .............. Senior Vice President

#### Vice Presidents

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EDWIN F. MUNDY
CARL R. PILZ
HARRY F. SCHROETER
JOHN J. TOOMEY
WILLIAM E. MACKAY, Vice President and General Counsel

KENNETH M. HATCHER ........... Secretary and Treasurer
WARREN J. ROBERTSON ...................... Controller

## PRINCIPAL UNITED STATES PLANTS

### BISCUIT AND CRACKER BAKERIES

Atlanta, Georgia
Buena Park, California
Chicago, Illinois
Denver, Colorado
Fair Lawn, New Jersey
Houston, Texas
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Portland, Oregon
St. Louis, Missouri

### FLOUR MILLS

Carthage, Missouri
Cheney, Washington
Toledo, Ohio

### SPECIALTY PLANTS

Beacon, New York ... *(printing plant)*
Buffalo, New York ... *(pet foods)*
Cambridge, Massachusetts ... *(candy)*
Dayton, Ohio ... *(ice cream cones)*
Evanston, Illinois ... *(machine shop)*
Fair Lawn, New Jersey ... *(research and development)*
Los Angeles, California ... *(candy)*
Lyons, New York ... *(dates and cake mixes)*
Mansfield, Massachusetts ... *(candy)*
Marseilles, Illinois ... *(paperboard, printing)*
South Chicago, Illinois ... *(frozen foods)*
Woodbury, Georgia ... *(dates and pimientos)*
Wrightstown, Wisconsin ... *(cheese spreads)*
York, Pennsylvania ... *(pretzels)*

### CEREAL PLANTS

Battle Creek, Michigan
Chester, Pennsylvania
Minneapolis, Minnesota
Niagara Falls, New York
Oakland, California

### BREAD AND CAKE BAKERIES

Albany, New York
Birmingham, Alabama
Buffalo, New York
Cleveland, Ohio
Elmira, New York
Rochester, New York
Syracuse, New York

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## INTERNATIONAL OPERATIONS

**AUSTRALIA:**
Nabisco Pty. Limited

**CANADA:**
Christie, Brown & Company, Limited
Matthews-Wells Company, Limited
Nabisco Limited:
  Christie's Bread Division
  Nabisco Foods Division

**DENMARK:**
Oxford Biscuit Factory Ltd.

**ENGLAND:**
Nabisco Limited:
  Nabisco Foods Division
  Nabisco Frears Biscuits Division

**FRANCE:**
Biscuits Belin, S.A.
Biscuits Gondolo, S.A.

**GERMANY:**
B. Sprengel & Co.
Harry Trueller GmbH

**ITALY:**
Saiwa, S.p.A.

**MEXICO:**
Nabisco-Famosa, S.A.

**NEW ZEALAND:**
Griffin & Sons Limited

**NICARAGUA:**
Industrias Nabisco Cristal, S.A.

**PUERTO RICO:**
Arbona Hermanos Division

**SPAIN:**
Galletas Artiach, S.A.

**VENEZUELA:**
Nabisco-La Favorita, C.A.

**NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES**

## TEN YEAR FINANCIAL REVIEW

**Dollars in Millions** (except per share figures)

| | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | **$763.6** | $719.6 | $675.6 | $607.5 | $578.4 | $547.5 | $486.3 | $463.6 | $429.0 | $413.3 |
| Income before income taxes | **81.5** | 78.0 | 74.6 | 74.3 | 70.7 | 63.8 | 59.2 | 60.8 | 51.2 | 46.4 |
| Federal and foreign taxes on income | **39.2** | 37.2 | 36.2 | 37.8 | 36.8 | 33.0 | 30.8 | 31.5 | 26.7 | 24.3 |
| Net income | **42.3** | 40.8 | 38.4 | 36.5 | 33.9 | 30.8 | 28.4 | 29.3 | 24.5 | 22.1 |
| Earnings retained | **15.1** | 14.9 | 13.8 | 13.2 | 12.2 | 10.2 | 7.8 | 10.4 | 7.5 | 6.3 |
| Net income per common share | **3.11** | 2.99 | 2.80 | 2.66 | 2.47 | 2.22 | 1.98 | 2.04 | 1.78 | 1.59 |
| Dividends declared | | | | | | | | | | |
| Preferred stock | — | — | — | — | — | .4 | 1.7 | 1.7 | 1.7 | 1.7 |
| Common stock | **27.2** | 25.9 | 24.6 | 23.3 | 21.7 | 20.2 | 18.9 | 17.2 | 15.3 | 14.1 |
| Per common share | **2.00** | 1.90 | 1.80 | 1.70 | 1.60 | 1.50 | 1.40 | 1.25 | 1.20 | 1.10 |
| Current assets | **189.0** | 179.9 | 182.9 | 166.9 | 152.8 | 135.1 | 129.6 | 129.7 | 112.2 | 99.0 |
| Current liabilities | **89.8** | 81.8 | 84.8 | 70.1 | 65.8 | 62.8 | 52.4 | 53.9 | 46.0 | 44.5 |
| Working capital | **99.2** | 98.1 | 98.1 | 96.8 | 87.0 | 72.3 | 77.2 | 75.8 | 66.2 | 54.5 |
| Plant and equipment (net) | **180.5** | 159.3 | 152.8 | 132.4 | 132.1 | 136.5 | 125.3 | 121.4 | 121.3 | 130.0 |
| Plant and equipment expenditures | **31.6** | 25.6 | 23.1 | 14.7 | 11.8 | 24.0 | 16.8 | 11.5 | 8.4 | 9.7 |
| Cost of employees' services | **238.0** | 222.1 | 208.5 | 189.2 | 180.3 | 172.5 | 156.8 | 148.9 | 140.1 | 136.2 |
| Provision for all taxes (except social security) | **48.9** | 45.4 | 43.9 | 44.2 | 43.2 | 39.9 | 36.1 | 36.7 | 31.5 | 29.0 |
| Book value of common stock | **256.2** | 241.5 | 230.7 | 216.9 | 203.7 | 191.5 | 195.7 | 187.8 | 171.1 | 163.7 |
| Book value per common share | **18.84** | 17.75 | 16.85 | 15.84 | 14.88 | 13.99 | 14.50 | 13.92 | 13.40 | 12.81 |
| Number of shareholders | **78,000** | 77,600 | 78,500 | 80,000 | 80,500 | 81,400 | 83,200 | 77,300 | 75,800 | 75,700 |

This colorful and attention-getting advertisement stresses the versatility and quality of popular RITZ crackers.

NABISCO

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